

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FPC-01 H-03 INR-11 INT-08 L-03

NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02 PA-04 PRS-01

USIA-15 NEA-14 EA-11 AF-10 XMB-07 OPIC-12 DRC-01 /227 W

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R 201315Z JUL 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4590

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 5394

FOLLOWING REPORT DRAFTED BY CONGEN RIO:

E. O. 11652: GDS

TAGS: ENRG, BR

SUBJECT: OIL EXPLORATION BY FOREIGN FIRMS

1. BEGIN SUMMARY: WHEN ENERGY CRISIS BEGAN LAST FALL, SPECULATION IN BRAZIL AROSE THAT FOREIGN OIL COMPANIES WOULD BE GRANTED EXPLORATION CONCESSIONS IN ORDER TO SUPPLEMENT ACTIVITIES OF PETROBRAS, THE STATE-OWNED PETROLEUM MONOPOLY. MINISTER OF MINES AND ENERGY UEKI RECENTLY REAFFIRMED GOB POLICY EXCLUDING CONCESSIONS TO FOREIGN COMPANIES BUT LEFT OPEN POSSIBILITY FOR A CHANGE IN THE FUTURE. IN SPITE OF OFFICIAL DENIALS, GOB APPEARS TO BE MOVING TOWARD RECONSIDERATION OF ITS POSITION ON FOREIGN PARTICIPATION IN EXPLORATION AND AUTHORITATIVE SOURCES CONFIRM THAT THIS IS SO. GROWING PRESS ATTENTION MAY BE GOVERNMENT-INSPIRED CAMPAIGN TO CONFITION PUBLIC OPINION TO A MODIFICATION IN EXPLORATION POLICY. RECENT DEVELOPMENTS ARE CONSISTENT WITH CONSIDERATIONS AND PROBLEMS THAT WOULD AFFECT A CHANGE

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IN OIL POLICY MENTIONED IN MAY 1973 BY UEKI, THEN A PETRO-

BRAS OFFICIAL, IN PRIVATE MEETING WITH USG OFFICIALS. END
OF SUMMARY.

2. ON JUNE 27, IN AN APPEARANCE BEFORE A CONGRESSIONAL COMMITTEE, MINISTER OF MINES AND ENERGY SHIGEAKI UEKI (FORMERLY FINANCIAL DIRECTOR OF PETROBRAS), ACCORDING TO PRESS REPORTS, STATED THAT GOB HAD NO INTENTION OF PERMITTING FOREIGN COMPANIES TO PARTICIPATE IN THE EXPLORATION OR PRODUCTION OF OIL IN BRAZIL. HE STATED PETROBRAS IS TECHNICALLY AND FINANCIALLY CAPABLE OF UNDERTAKING EXTENSIVE EXPLORATION AND IS IN FACT DOING SO FROM ACRE TO RIO GRANDE DO SUL. UEKI DID ADD, HOWEVER, THAT IF IN THE FUTURE THERE WERE NECESSITY FOR FOREIGN PARTICIPATION, WITHOUT DAMAGING THE STATE MONOPOLY LAW, THE MATTER WOULD BE STUDIED. HE CAUTIONED AGAINST MISUSING TERM "CONCESSION," CLAIMING THAT ITS IMPLICATION OF EXTRA-TERRITORIAL RIGHTS IS NO LONGER APPLICABLE ANYWHERE. RATHER, HE STATED, THE TERM NOW INDICATES A "SERVICE CONTRACT" FOR EXPLORATION IN AREAS DETERMINED BY HOST COUNTRY AND THAT CONDITIONS OF SUCH CONTRACTS ARE RIGOROUS, WITH HOST COUNTRY AT TIMES RETAINING 85 PERCENT OF PRODUCTION IF EXPLORATION MEETS WITH SUCCESS. MINISTER ADDED THAT PETROBRAS INTERNATIONAL SUBSIDIARY, BRASPETRO, WOULD EXPAND EXPLORATION ACTIVITIES ABROAD IN CONJUNCTION WITH OTHER COMPANIES. HE SAID SUCH ASSOCIATIONS REDUCE INVESTMENT COSTS AND HELP BRAZIL GAIN ADDITIONAL KNOW-HOW FOR ITS DOMESTIC ENDEAVORS. RESPONDING TO A CONGRESSMAN WHO SUGGESTED PETROBRAS' EFFORTS ABROAD MIGHT DILUTE ITS EFFORTS IN BRAZIL, MINISTER ASSERTED THAT COMPANY'S DOMESTIC PROGRAM WOULD NOT SUFFER.

3. MINISTER UEKI'S STATEMENT GENERATED CONSIDERABLE PRESS ATTENTION. RIO'S INFLUENTIAL JORNAL DO BRASIL ON JUNE 28 EMPHASIZED MINISTER'S PLEDGE TO INVESTIGATE POSSIBLE "FORMS OF ASSOCIATION" WITH FOREIGN COMPANIES WITHIN EXISTING MONOPOLY LAW, NOTING THAT ARAB NATIONS WHERE BRASPETRO OPERATES HAVE MANAGED TO SAFEGUARD THEIR SOVEREIGNTY. A BRASILIA PAPER REPORTED THAT THE GOVERNMENT WAS LOOKING INTO POSSIBLE ARAB OR IRANIAN INVESTMENT IN OIL EXPLORATION. THE PRESTIGIOUS O ESTADO DE SAO PAULO EDITORIALIZED IN FAVOR OF GREATER FOREIGN PARTICIPATION TO ASSUME EXPLORATION RISKS.
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4. LATEST ISSUE OF WIDELY-READ WEEKLY VISAO CARRIED LONG ARTICLE AND EDITORIAL ON DOMESTIC PETROLEUM SITUATION. ARTICLE LAMENTED SERIOUS SHORTFALL IN PRODUCTION AND STATED: "TIMES HAVE CHANGED. BRAZIL NO LONGER IS IGNORANT OR INCAPABLE IN PETROLEUM MATTERS. PETROBRAS IS NO LONGER A FRAGILE COMPANY. THE FAMOUS PETROLEUM TRUSTS - THE SEVEN SISTERS, RESPONSIBLE FOR SO MANY POLITICAL ACTIONS IN THE PAST - HAVE SHORTENED

TENTACLES, PRINCIPALLY IN THE ARAB WORLD, AND TODAY ARE DEMONSTRATING A GREATER DISPOSITION TO ENTER INTO MORE REALISTIC, EQUITABLE AGREEMENTS." EDITORIAL STATED: "TAKING THE NECESSARY SAFEGUARDS, IT IS TIME TO ATTRACT PRIVATE CAPITAL AND INITIATIVE TO THE PETROLEUM SECTOR, NOT IN PLACE OF PETROBRAS, BUT TO COMPLEMENT IT UNDER A FORM OF EXPLORATION CONTRACT, IN JOINT VENTURES OR WITH TOTAL RISK BY THE FIRMS, WITH PARTICIPATION OR UNDER GOVERNMENT AUSPICES, BUT WITH BRAZIL ASSURED IN ANY CASE OF A STRONG SHARE OF THE EVENTUAL PRODUCTION FROM ANY DISCOVERIES."

5. JORNAL DO BRASIL, WHICH OFTEN REFLECTS OFFICIAL VIEWS, AGAIN COMMENTED ON JULY 11: "IT IS IMPORTANT THAT BRAZIL FIND THE MEANS TO INCREASE OIL PRODUCTION...JAPAN IS INVESTING \$1 BILLION FOR PETROLEUM IN THE SOVIET UNION. IN PERU THE STATE COMPANY USES AMERICAN COMPANIES. THE ALGERIAN SYSTEM INCLUDES FOREIGN PARTICIPATION. THE TIMES HAVE CHANGED. THE WHOLE WORLD NEEDS PETROLEUM WHICH IS SCARCE AND EXPENSIVE. WE WILL BE LOSING PRECIOUS TIME AND CAPITAL THAT WE LACK FOR GENERAL DEVELOPMENT, IF WE DO NOT ATTRACT INTERNATIONAL SAVINGS FOR OUR EXPLORATION." JORNAL PICKED UP SAME THEME IN JULY 17 EDITORIAL, COMMENTING THAT BRASPETRO CONTRACTS IN OTHER COUNTRIES PROVIDED A MODEL FOR DOMESTIC PURPOSES.

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C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 5394

6. UEKI'S STATEMENT AND THE ENSUING COMMENTARY ALSO SPARKED INTEREST AMONG FOREIGN PETROLEUM REPRESENTATIVES IN BRAZIL. IN CONVERSATIONS WITH CONGEN OFFICER, OIL INDUSTRY CONTACTS HAVE NOTED THAT ARRANGEMENTS COULD BE MADE WHEREBY FOREIGN FIRMS WOULD EMPLOY THEIR CAPITAL, PERSONNEL, AND EQUIPMENT TO SUPPLEMENT PETROBRAS' EXPLORATION EFFORTS. THEY HAVE FURTHER ARGUED THAT TO ALLOW FOREIGN COMPANIES TO PROSPECT IN BRAZIL UNDER WELL-DEFINED GOB CONTROLS WOULD BE IN LINE WITH TYPE OF RELATIONS BRAZIL ITSELF ALREADY HAS ESTABLISHED (INCLUDING WITH MOBIL AND CHEVRON) IN SOME MIDEAST AND AFRICAN COUNTRIES. MAIN OBSTACLE AGAINST MAKING SUCH ARRANGEMENTS FOR EXPLORATION IN BRAZIL IS POSSIBLE EMOTIONAL PUBLIC REACTION TO FOREIGNERS BEING ALLOWED - INDEED INVITED - TO "EXPLOIT" BRAZIL'S MOST PRECIOUS NATURAL RESOURCE.

7. COMMENT: SERVICE CONTRACTS PER SE ARE NOTHING NEW IN BRAZIL, AS HALF-DOZEN FIRMS, INCLUDING SOME FROM US, ARE DOING GEOLOGICAL, DRILLING, CONSULTING, AND OTHER WORK FOR PETROBRAS. REPRESENTATIVES OF MAJOR INTERNATIONAL OIL COMPANIES CONTINUE TO VISIT BRAZIL AND TO KEEP PETROBRAS CONFIDENTIAL

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INFORMED OF THEIR INTEREST IN A GREATER ROLE IN EXPLORATION. THERE HAS BEEN CONSIDERABLE SPECULATION BY PRIVATE SOURCES AS TO KIND OF ARRANGEMENTS WHICH MIGHT BE ENGINEEERED.

8. WITH RESPECT TO BRAZIL'S PETROLEUM PROSPECTS, PETROBRAS REMAINS GENERALLY CAUTIOUS IN ITS PREDICTIONS. THE COMPANY ESTIMATED RESERVES AT 774 MILLION BARRELS AT END OF 1973. CRUDE PRODUCTION HAS STAGNATED IN RECENT YEARS AND IN 1974 IT MAY BARELY SURPASS LAST YEAR'S 62 MILLION BARRELS (ABOUT 20 PERCENT OF COUNTRY'S TOTAL CNSUMPTION). ALTHOUGH DOUBLING OF GASOLINE PUMP PRICES SINCE LAST FALL HAS HELD GROWTH IN CONSUMPTION TO A LOWER RATE THAN ANTICIPATED, IMPORTS THIS YEAR ALONE COULD COST ABOUT \$3 BILLION, SERIOUSLY STRAINING THE BALANCE OF PAYMENTS. OUTLOOK FOR SUCCEEDING YEARS IS NOT MUCH BRIGHTER. LAST YEAR PETROBAS, WHICH SINCE 1953 HAS HAD A MONOPOLY ON DOMESTIC EXPLORATION AND PRODUCTION, SPENT \$133 MILLION ON EXPLORATION. THIS YEAR IT WILL SPEND OVER \$200 MILLION, ALMOST ONE-THIRD OF COMPANY'S TOTAL INVESTMENT, WITH MAIN EFFORT DIRECTED TO CONTINENTAL SHELF.

9. MINISTRY OF MINES AND ENERGY AS WELL AS NATIONAL PETROLEUM COUNCIL SENIOR OFFICIALS AND A DIRECTOR OF PETROBRAS CONTACTED PRIVATELY COULD NOT (OR WOULD NOT) SHED LIGHT ON MINISTER'S STATEMENTS OR ON POSSIBILITY OF

ANY FUTURE CHANGE FROM PRESENT POLICY. ON JULY 17, MINISTER UEKI STATED THAT THE GOVERNMENT WAS NOT STUDYING A REVISION IN ITS STATE MONOPOLY OIL POLICY BUT THAT SERVICE CONTRACTS MIGHT BE SIGNED IN THE FUTURE, AS HE HAD ALREADY INDICATED. HOWEVER, CONTINUING PRESS DISCUSSION SUGGESTS THAT ARTICLES COULD BE GOB-INSPIRED EITHER AS A TRIAL BALLOON OR TO PAVE THE WAY FOR A FUTURE CHANGE IN OFFICIAL POLICY. FOREIGN MINISTRY SOURCES, ON AN UNOFFICIAL BASIS, DID TELL A VISITOR OVER PAST FEW DAYS THAT GOB IS REVIEWING ITS PETROLEUM POLICY. WITHIN PAST WEEK ROBERTO CAMPOS INFORMED CONGEN RIO THAT PRESIDENT GEISEL SUPPORTS A CHANGE IN EXPLORATION POLICY AND THAT IMPORTANT CONSIDERATION AT THIS STAGE IS PREPARATION NECESSARY TO GAIN GENERAL ACCEPTANCE (BRASILIA 5332).

10. POSSIBILITY THAT GOB MIGHT CONSIDER CHANGES IN OIL
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MONOPOLY POLICY WAS MENTIONED BY UEKI, THEN PETROBRAS' FINANCIAL DIRECTOR, IN A MAY 1973 MEETING WITH UNDERSECRETARY CASEY (BRASILIA 3255 NODIS). AT THAT TIME UEKI UNDERSCORED LEGAL AND POLITICAL PROBLEMS IN REVISING OIL POLICY AND INDICATED THAT PETROBRAS' DEVELOPMENT AS AN INTERNATIONAL OIL COMPANY WOULD HAVE A BEARING ON DOMESTIC POLICIES.

11. FUNDAMENTAL ISSUES TO BE ANSWERED IN ANY RECONSIDERATION OF OIL POLICY, AS REFLECTED IN CAMPOS REPORT AND COMMENTS BY UEKI LAST YEAR, WOULD BE THOSE OF (A) EXTENT TO WHICH BRAZILIAN PERCEPTIONS OF SERIOUS ECONOMIC SITUATION CAN OVERCOME PERCEPTIONS OF NATIONALISM AS EXPRESSED IN PRESENT POLICIES AND (B) TIMING OF ANY APPRECIABLE MODIFICATION OF POLICY WHICH, AT LEAST IN EARLY STAGES OF ENERGY CRISIS, SOME BRAZILIANS STILL BELIEVED WOULD BE POLITICALLY IMPOSSIBLE WITHIN FIRST TWO YEARS OF THE GEISEL ADMINISTRATION.
CRIMMINS

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